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Recollected Questions in Accounting and Finance for Bankers (AFB) For JAIIB Jan 2022 Examination

KEY HIGHLIGHTS

- Most likely to be Asked Questions
- Recollected from the Previous 5 Years
- Thoroughly Curated by Industry Experts
- 100 Questions with Solutions
- Based on the Latest Pattern for Jan 2022 Exam

Accounting & Finance for Bankers (AFB)

Q1. Population of city - Current year 24 Lakhs. Increasing 7% yearly.
What will be the population after 6 years?
(a) 1770810
(b) 1830943
(c) 3601753
(d) 5372563
Ans: (c)
Explanation: Population after 6 years at 7% interest
A = P(1+r)^t
= 2400000 (1+0.07) ^ 6
= 2400000 x 1.50073
= 3601753

Q2. What was the population before 4 years?
(a) 1770810
(b) 1830943
(c) 3601753
(d) 5372563
Ans: (b) Population before 4 years at 7% interest
If P(1+r)^t = 2400000, find P
P (1.07)^4 = 2400000
P (1.3108) = 2400000
P = 2400000 / 1.3108
P = 1830943

Q3. What is the difference population between those years
(a) 1770810
(b) 1830943
(c) 3601753
(d) 5372563
Ans: (a) Difference between the 2
3601753 - 1830943
= 1770810

Q4. Banking definition comes under which act?
(a) Banking Regulation Act, 1949
(b) Reserve Bank of India act, 1934
(c) Negotiable Instrument act, 1881
(d) Regional Rural Banks Act, 1976
Ans: (a)

Q5. A bond, whose par value is Rs. 5000, bears a coupon rate of 10.75 % payable semi-annually and has a maturity period of 4 years. The required rate of return on bond is 8 %. What is the value of this bond?
(a) 5267

(b) 5480
(c) 5259
(d) 5462
Ans: (d)
Explanation: Semi-annual interest payable = 5,000 x 10.75 per cent/2 = 268.75
Principal repayment at the end of 4 years = Rs. 5,000
The value of the bond
= 268.75 (PVIFA 8%/2, 8 pds) + Rs. 5,000 (PVIF 8%/2, 8 pds)
= 268.75 (6.7327) + 5,000 (0.7307)
= 1809.41 + 3653.50
= 5462.91

Q6. Accounting Standard 6 deals with ________
(a) Disclosure of Accounting Policies
(b) Depreciation Accounting
(c) Consolidated Financial Statements
(d) Accounting for Taxes on Income
Ans: (b)

Q7. Objects of company are mentioned in ________
(a) Memorandum of Association
(b) Articles of association
(c) Both a and b
(d) None of the above
Ans: (a)

Q8. Bank reconciliation is done by ________
(a) Customer
(b) Bank
(c) Auditor
(d) Any of the above
Ans: (a)

Q9. According to the concept of money measurement the following will not be recording in the books of accounts . (i) simplicity of the general management, (ii) death of the general manager, (iii) gratuity paid to the general managers wife after his dearth
(a) Only (i) and (ii)
(b) Only (i) and (iii)
(c) Only (ii) and (iii)
(d) (i), (ii) and (iii)
Ans: (a)

Directions (10-11): On the basis of the information given below, answer the following questions.
The balance in the accumulated provision for depreciation account of a company as at the beginning of the year 2020-2021 was Rs. 2,00,000 when the original cost of the assets amounted to Rs. 10,00,000. The company charges full 10% depreciation on a straight line basis for all the assets including those which

have been either purchased or sold during the year. One such asset costing Rs. 5,00,000 with accumulated depreciation as at the beginning of the year of Rs. 1,00,000 was disposed of during the year.

Q10. Depreciation for the current year is .
(a) Rs. 40,000
(b) Rs. 50,000
(c) Rs. 60,000
(d) Rs. 1,00,000
Ans: (d)

Q11. The balance of the accumulated depreciation account at the end of the year considering the current year's depreciation charge would be .
(a) Rs. 2,20,000
(b) Rs. 1,50,000
(c) Rs. 1,20,000
(d) Rs. 2,50,000
Ans: (b)

Q12. Which of the following is/are types of Petty cash book? (i) Simple Petty Cash Book, (ii) Columnar Petty Cash Book
(a) Only (i)
(b) Only (ii)
(c) Either (i) or (ii)
(d) Both (i) and (ii)
Ans: (d)

Q13. Full form of FIFO ________
(a) First In, First On
(b) First In, First Out
(c) First Inside, First Outside
(d) None of the above
Ans: (b)

Q14. According to which concept, profit is the liability of the firm?
(a) Business Entity Concept
(b) Matching Concept
(c) Dual Concept
(d) Cost Concept
Ans: (a)

Q15. Prepaid expenses and outstanding expenses are taken into account by a firm on the basis of which following concept?
(a) Money measurement concept
(b) Accrual basis of accounting

(c) Cost concept
(d) Dual aspect concept
Ans: (b)

Q16. For the purpose of STR (Suspicious Transaction Reports), Suspicious transaction means a transaction whether or not made in cash which, to a person acting in good faith ________ (i) Gives rise to a reasonable ground of suspicion that it may involve the proceeds or crime, (ii) Appears to be made in circumstances of unusual or unjustified complexity, (iii) Appears to have no economic rationale or bonafide purpose
(a) Only (i) and (ii)
(b) Only (i) and (iii)
(c) Only (ii) and (iii)
(d) (i), (ii) and (iii)
Ans: (d)

Q17. Health of the proprietor which affects the business activity and hence the profit, is not recorded in the books due to which of the following .
(a) Business entity concept
(b) Money measurement concept
(c) Realization concept
(d) Going concern concept
Ans: (b)

Q18. Capital of a firm is 35, reserves 11. Its debentures are 80 and preliminary expenses 6. The debt equity ratio will be:
(a) 0.5:1
(b) 2:1
(c) 1.7:1
(c) none of the above
Ans: (b)
Explanation: Long term liabilities are 80 and tangible net worth 40 (35+11-6). Hence ratio is 2 (80/40)

Q19. Generally Accepted Accounting Principles (GAAP) is Regulated by ________ (i) Financial Accounting Standards Board (FASB), (ii) Governmental Accounting Standards Board (GASB)
(a) Only (i)
(b) Only (ii)
(c) Either (i) or (ii)
(d) Both (i) and (ii)
Ans: (d)

Q20. Which of the following is/are properties of Bond Duration? (i) Duration is inversely related with coupon rate, (ii) Duration is positively related with time to maturity, (iii) Duration is inversely related with yield to maturity
(a) Only (i) and (ii)

(b) Only (i) and (iii)
(c) Only (ii) and (iii)
(d) (i), (ii) and (iii)
Ans: (d)

Q21. What is the denominator of Inventory Turnover Ratio?
(a) Beginning inventory
(b) Ending inventory
(c) Beginning inventory + Ending inventory
(d) (Beginning inventory + Ending inventory) / 2
Ans: (d)

Q22. Maximum number of members in private companies as per Companies Act, 2013 is ________
(a) 50
(b) 100
(c) 200
(d) 500
Ans: (c)

Q23. Debt equity ratio is 4:1, Current ratio is 2:1, Total assets 2000000, Owned liabilities 300000. what is the current assets?
(a) 8 lakhs
(b) 10 lakhs
(c) 12 lakhs
(d) 15 lakhs
Ans: (b)
Explanation: Debt equity ratios is 4:1 means 12 lac : 3 lac
Asset = Current Liabilities + Debt + Equity i.e
20 Lac = Current Liabilities + 12 Lac + 3 Lac
Current Liabilities = 20 Lac - 15 Lac = 5 Lac
Current Ratio is 2 : 1
Current Assets = 2 x 5 = 10 Lac

Directions (24-25): Reverse Mortgage Loan (RML) Scheme,though apparently enables senior's regular income by pledging home with the lending bank,the product has not met with much success due to obvious reasons such as non-availability of regular income beyond tenure leading to uncertainty as to how manage without payment after the loan term,quantum,etc. To overcome the weakness of the scheme, an improved Reverse Mortgage Loan enabled Annuity Scheme (RMLeA) has envolved as significant improvement over the intial RML product variant.
Answer the following question:

Q24. RMLeA scheme has been promoted by .
(i) National Housing Bank
(ii) HDFC Ltd
(iii) Central Bank of India
(iv) Star Union Daichi life insurance Company ltd.

(a) (i) and (ii) only
(b) (iii) and (iv) only
(c) (i),(iii) and (iv) only
(d) (i),(ii) and (iii) only

Q25. Which of the following features are true in respect of RMLeA?
(i) Married couples will be eligible as joint borrower for financial assistance
(ii) Joint borrower will have the option to receive the annuity separately in their respective individual names on proportionate basis that may decide
(iii) The senor Citizen borrower are eligible to receive assured life-time payments even after completion of the fixed term with increased quantum of annuity
(vi) The periodic annuity payments are subject to Income Tax and Taxable in the hand of the annuity recipients.
(a) (i),(iii) and (vi)are correct
(b) (ii),(iii) and (vi)are correct
(c) (iii),(ii) and (i)are correct
(d) All (i),(ii),(iii) and (vi)are correct

Q26. The LTV in respect of Senior Citizen in the age bracket of 70-80 as per the scheme is .
(a)50%
(b)75%
(c)70%
(d)60%

Q27. Under reverse Mortgage Loan Enabled Annuity (RMLeA), which of the following are considered as the primary annuity sourcing institution?
(a) Scheduled Commercial Banks
(b) Housing finance Companies
(c) Life insurance Corporations
(d) All the above
Explanation:
1-b, 2-a, 3-c, 4-c

Q28. How much will an ordinary annuity of Rs. 650 per year be worth in eight years at an annual interest rate of 6 percent?
(a) Rs. 8,975.38
(b) Rs. 6,897.76
(c) Rs. 7,021.80
(d) Rs. 6,433.38
Ans: (d)
Explanation:
FVAn = PMT [FVIFAi,n]
FVA8 = Rs. 650 [FVIFA6%,8]
= Rs. 650 (9.8975)
= Rs. 6,433.38

Q29. What would you pay for an ordinary annuity of Rs. 2,000 paid every six months for 12 years if you could invest your money elsewhere at a nominal interest rate of 10% compounded semiannually?
(a) Rs. 13,798.60

(b) Rs. 25,500.35
(c) Rs. 27,597.20
(d) Rs. 26,957.20
Ans: (c)
Explanation:
PVAn = PMT [PVIFAi,n]
PVA24 = Rs. 2,000 [PVIFA5%,24] = Rs. 2,000 (13.7986)
PVA24 = Rs. 27,597.20

Q30. KYC is required to be done at least in every ________ for high risk customers
(a) 2 Years
(b) 5 Years
(c) 8 Years
(d) 10 Years
Ans: (a)

Q31. Maximum monthly withdrawal limit for Small Savings A/c is ________
(a) Rs. 10000
(b) Rs. 20000
(c) Rs. 50000
(d) Rs. 100000
Ans: (a)

Q32. If a company issues bonus shares at 2:1, the debt equity ratio will:
(a) Remain unaffected
(b) Will go up in the same ratio of issue of bonus to the original holding
(c) Will improve in the same ratio of issue of bonus to the original holding
(d) Will be lowered
Ans: (a)

Q33. Interest rate elasticity of a bond is .
(a) Always a negative number
(b) Always a positive number
(c) Positive or negative number depending on the market condition
(d) Positive or negative number depending on the market value
Ans: (b)

Q34. Which of the following is peculiar to a partnership firm?
(a) It has perpetual existence
(b) It has large number of owners
(c) All owners have unlimited liability
(d) Govt control is very strict
Ans: (c)

Q35. Current Ratio = 2:1
Quick Ratio = 1.5:1
Current Liabilities = 1,60,000
Amount of value of inventory?

(a) 50,000
(b) 80,000
(c) 70,000
(d) 90,000
Ans: (b)

Q36. 1 US$ = Rs. 67.75/78
1 US$ = 7.52 HKD
1 HKD = Rs. ________?
(a) 7.5
(b) 9.01
(c) 18.01
(d) 15
Explanation:
We will get US$ 1 for Rs.67.78 and for one US$ we will get HKD 7.52
So, so get 1 HKD
52 HKD = 1 US$ = 67.78
1 HKD = 67.78/7.52
1 HKD = 9.0132

Q37. Cash inflow - Rs. 55000
Useful life of the project - 5 years
IRR - 15%
Cost of capital - 11%
What is NPV of the project?
(a) 19640
(b) 20415
(c) 18670
(d) 17526
Ans: (c)

Q38. A bill of Rs. 94769 is drawn by 'A' on 'B' for 3 months on 01.01.2021. A gets the bill discounted from the bank on 17.02.2021. How much rebate amount will be deducted if rate of interest is 11.5% pa?
(a) 2750
(b) 1300
(c) 1350
(d) 1400
Ans: (b)

Q39. Which one of the following is incorrect relating to Employees Stop Option Scheme?
(a) Guidelines are issued by SEBI
(b) Employees have to apply for shares at a pre-determined price
(c) ESOS is a right but no obligation to the employees

(d) The right can be exercised at anytime by the employees
Ans: (d)

Q40. What will be the rectification entry for balance of sales account overcast by Rs. 24973?
(a) Cash A/c Rs. 24973 Dr/To Sales A/c Rs. 24973
(b) Sales A/c Rs. 24973 Dr/To Suspence A/c Rs. 24973
(c) Sales A/c Rs. 24973 Dr/To Cash A/c Rs. 24973
(d) Purchase A/c Rs. 24973 Dr/To Sales A/c Rs. 24973
Ans: (c)

Q41. 1 US$ = Rs. 67.75/78
1 US$ = 7.52 HKD
1 HKD = Rs. ______?
(a) 7.2564
(b) 8.7328
(c) 9.0132
(d) 9.4368
Ans: (c)
Solution :
We will get US$ 1 for Rs.67.78 and for one US$ we will get HKD 7.52
So, so get 1 HKD
52 HKD = 1 US$ = 67.78
1 HKD = 67.78/7.52
1 HKD = 9.0132

Q42. Maximum allowed credit in a year in small savings a/c is ________
(a) Rs. 10000
(b) Rs. 20000
(c) Rs. 50000
(d) Rs. 100000
Ans: (d)

Q43. Maximum balance in the small savings a/c should not exceed ________ at any time
(a) Rs. 10000
(b) Rs. 20000
(c) Rs. 50000
(d) Rs. 100000
Ans: (c)

Q44. Deprecation is more by which method during the first and second year?
(a) Straight line method
(b) Double declining method
(c) Written down method
(d) Sun of the digits method
Ans: (b)

Q45. Wages paid for installation of machinery is what kind of expenditure?
(a) Capital Expenditure
(b) Revenue Expenditure

(c) Deferred Revenue Expenditure
(d) None of the above
Ans: (a)

Q46. 1 Rs = 64.68 $ is direct or indirect quote? (i) Direct Quote, (ii) Indirect Quote
(a) Only (i)
(b) Only (ii)
(c) Either (i) or (ii)
(d) Both (i) and (ii)
Ans: (b)

Q47. Minor above ________ years can open and operate SB account independently
(a) 10 years
(b) 12 years
(c) 15 years
(d) 18 years
Ans: (a)

Q48. Limited company uses ________
(a) double entry system
(b) single entry system
(c) hybrid
(d) any
Ans: (a)

Q49. What will be the effect if sales return of 50000 posted 48200 and purchase return of 46000 posted 47800?
(a) No effect
(b) P&L increase by 3600
(c) P&L decrease by 3600
(d) P&L increase or decrease by 1800
Ans: (b)

Q50. A pass book is showing overdraft of Rs 9750. A cheque of Rs 750 presented. What will be the effect?
(a) overdraft will increase by 750
(b) overdraft will decrease by 750
(c) cash book will be increased or decrease by 750
(d) payment of chq will be denied or none of the above
Ans: (a)

Q51. Machinery value - 12,00,000, Salvage Value - 1,00,000, Useful Life in Years - 10 Years
Use sum of the years' digits method of depreciation to find the Book value after 3 years
(a) 540000

(b) 660000
(c) 820000
(d) 1000000
Ans: (b)
Explanation:
Sum of the Years' Digits = 1 + 2 + 3 + 4 + . + 10 = 10(10 + 1) ÷ 2 = 55
Depreciable Base = 12,00,000 – 1,00,000 = 11,00,000
1st year = 10/55*1100000 = 200000
2nd year = 9/55*1100000 = 180000
3rd year = 8/55*1100000 = 160000
Book Value at the end of 3rd year = 1200000 - (200000 + 180000 + 160000)
= 1200000 – 540000 = 660000

Q52. Bills are ________
(a) Nominal
(b) Real
(c) Personal
(d) Artificial personal
Ans: (b)

Q53. Medium risk customer document verified after every ________ years
(a) 2
(b) 3
(c) 8
(d) 10
Ans: (c)

Q54. Accounting Standard AS 10 deals with ________
(a) Fixed assets
(b) Depreciation Accounting
(c) Consolidated Financial Statements
(d) Accounting for Taxes on Income
Ans: (a)

Q55. On transfer of account from one branch to another branch of same bank what is required?
(a) Fresh id proof
(b) Address proof
(c) Fresh identity and address proof
(d) Self declaration
Ans: (d)

Q56. Which of the following is revenue expenditure?
(a) expenditure for used machinery part for sale
(b) purchase of motor car

(c) purchase of building
(d) cash paid for audit fee
Ans: (d)

Q57. Computer which are used in banks have ________
(a) digital
(b) analogue
(c) binary
(d) none of the above
Ans: (d)

Q58. Bond is inversely proportional to ________
(a) redemption rate
(b) coupon rate
(c) none of the above
(d) both 1 & 2
Ans: (d)

Q59. What will be the rectification entry for balance of sales account overcast by Rs. 24973?
(a) Cash A/c Rs. 24973 Dr/To Sales A/c Rs. 24973
(b) Sales A/c Rs. 24973 Dr/To Suspence A/c Rs. 24973
(c) Sales A/c Rs. 24973 Dr/To Cash A/c Rs. 24973
(d) Purchase A/c Rs. 24973 Dr/To Sales A/c Rs. 24973
Ans: (c)

Q60. Debt equity ratio is 4:1, Current ratio is 2:1, Total assets 2000000, Owned liabilities 300000. what are the current assets?
(a) 8 lakhs
(b) 10 lakhs
(c) 12 lakhs
(d) 15 lakhs
Ans: (b)
Explanation:
Debt equity ratios is 4:1 means 12 lac: 3 lac
Asset = Current Liabilities + Debt + Equity i.e.
20 Lac = Current Liabilities + 12 Lac + 3 Lac
Current Liabilities = 20 Lac - 15 Lac = 5 Lac
Current Ratio is 2: 1
Current Assets = 2 x 5 = 10 Lac

Direction (61-63): Given
US$1 = ¥ 123.25
£1 = US$ 1.4560

A$ = US$ 0.5420

Q61. Calculate the cross rate for pounds in yen terms

(a) ¥ 66.80
(b) ¥ 120.75
(c) ¥ 179.45
(d) ¥ 210.50

Ans: (c)

Explanation:
¥? = £1
£1 = US$ 1.4560
US$1 = ¥ 123.25
£1 = 1.4560 x 123.25
= ¥ 179.45

Q62. Calculate the cross rate for Australian dollars in yen terms

(a) ¥ 66.80
(b) ¥ 120.75
(c) ¥ 179.45
(d) ¥ 210.50

Ans: (a)

Explanation:
¥? = A$1
A$1 = US$ 0.5420
US$1 = ¥ 123.25
A$1 = 0.5420 x 123.25
= ¥ 66.80

Q63. Calculate the cross rate for pounds in Australian dollar terms

(a) £ 1.6568
(b) £ 2.1253
(c) £ 2.6863
(d) £ 3.0253

Ans: (c)

Explanation:
A$? = £1
£1 = US$ 1.4560
US$ 0.5420 = A$1
A$1 = 1.4560 / 0.5420
= £2.6863

Direction (64-73): ABC Limited Profit and Loss Account for the year ended 31.03.2018 is given below,
Turnover - 8030
Cost of sales - 4818

Distribution costs - 1606
Admin expenses - 600
Interest - 200
Tax - 286
Dividend - 320
Balance sheet as on 31.03.2016
Fixed assets
Plant and machinery - 4000
Current assets = 2800
Stocks - 1800
Debtors - 960
Bank - 40
Current liabilities = 1100
Trade creditors - 520
Proposed dividend - 320
Taxation - 160
Accruals - 100
Net current assets - 1700
10% debenture - 2000
Financed by - 3700
Ordinary shares - 900
Retained profit - 2800
Calculate the following based on the above details.

Q64. Gross profit
(a) 1006
(b) 2206
(c) 3122
(d) 3212
Ans: (d)
Explanation:
Gross profit = Turnover - Cost of sales
= 8030 - 4818
= 3212

Q65. Operating profit
(a) 200
(b) 520
(c) 806
(d) 1006
Ans: (d)
Explanation:
Operating profit = Gross profit - (Distribution costs + Admin expenses)
= 3212 - (1606 + 600)
= 3212 - 2206
= 1006

Q66. Profit before tax
(a) 200
(b) 520

(c) 806
(d) 1006
Ans: (c)
Explanation:
Profit before tax = Operating profit - Interest
= 1006 - 200
= 806

Q67. Profit attributable to shareholders
(a) 200
(b) 520
(c) 806
(d) 1006
Ans: (b)
Explanation:
Profit attributable to shareholders = Profit before tax - Tax
= 806 - 286
= 520

Q68. Retained profit
(a) 200
(b) 520
(c) 806
(d) 1006
Ans: (a)
Explanation:
Retained profit = Profit attributable to shareholders - Dividend
= 520 - 320
= 200

Q69. Gross profit margin
(a) 12.53 %
(b) 17.65 %
(c) 33.33 %
(d) 40 %
Ans: (d)
Explanation:
Gross profit margin = (Gross profit / Turnover) * 100
= (3212 / 8030) x 100
= 40 %

Q70. Operating margin
(a) 12.53 %
(b) 17.65 %

(c) 33.33 %
(d) 40 %
Ans: (a)
Explanation:
Operating margin = (Operating profit / Turnover) * 100
= (1006 / 8030) x 100
= 12.53 %

Q71. Return on capital employed (ROCE) ratio
(a) 12.53 %
(b) 17.65 %
(c) 33.33 %
(d) 40 %
Ans: (b)
Explanation:
Return on capital employed (ROCE) ratio = (Earnings Before Interest and Tax (EBIT) or net operating profit) / capital employed
Capital employed = Total Assets - Current Liabilities
= (4000 + 2800) - 1100
= 6800 - 1100
= 5700
ROCE = (1006 / 5700) * 100
= 17.65 %

Q72. Current Ratio
(a) 1:0.91
(b) 1:2.55
(c) 0.91:1
(d) 2.55:1
Ans: (d)
Explanation:
Current Ratio = Current Assets / Current Liabilities
= 2800 / 1100
= 2.55:1

Q73. Acid test/Quick ratio
(a) 1:0.91
(b) 1:2.55
(c) 0.91:1
(d) 2.55:1
Ans: (c)
Explanation:
Quick Ratio = (Current Assets – Inventories – Prepayments) / Current Liabilities
= (2800 - 1800) / 1100
= 1000 / 1100
= 0.91:1

Capital and Revenue Expenditure

Q74. Cost of replacement of defective parts of the machinery is ________
(a) Capital expenditure
(b) Revenue expenditure
(c) Deferred revenue expenditure
(d) None of the above
Ans: (b)

Q75. Loss of goods for Rs. 12000 due to fire is a revenue expenditure because ________
(a) It is recurring
(b) Amount involved is small
(c) Loss is arising out of business operations
(d) None of the above
Ans: (c)

Q76. Preliminary expenses, discount allowed on issue of shares are the examples of ________
(a) Capital expenditure
(b) Deferred revenue expenditure
(c) Revenue expenditure
(d) None of the above
Ans: (b)

Q77. Expenditure incurred in acquiring the patents rights for the business is an example of ________
(a) Capital expenditure
(b) Deferred revenue expenditure
(c) Revenue expenditure
(d) None of the above
Ans: (a)

Q78. What would be the impact on the Trial Balance of each of the following errors?
A copy of a sales invoice for Rs. 4,000 is not recorded in the Sales Day Book
(a) Excess credit Rs. 4,000
(b) Excess credit Rs. 8,000
(c) Excess debit Rs. 4,000
(d) No impact
Ans: (d)
Explanation:
If there is no record of a copy invoice in the Sales Day Book then there has been no prime entry. This means that there will be no credit in the Sales account and no debit in a customer's account. As an Error of Omission there is no impact on the Trial Balance.

Q79. A supplier's invoice for Rs. 2,500 is posted to the debit of the Trade Payable's account
(a) Excess credit Rs. 2,500

(b) Excess credit Rs. 5,000
(c) Excess debit Rs. 2,500
(d) Excess debit Rs. 5,000
Ans: (d)
Explanation:
If the supplier's invoice had not been posted, the debits would have exceeded the credits in the Trial Balance by Rs. 2,500. As the invoice was actually posted to the debit in the supplier's account the effect is doubled so that the total of the debits will exceed the total of the credits by Rs. 5,000

Q80. The daily total of the Sales Day Book is stated as Rs. 345,000 instead of Rs. 315,000 (i.e. overcast by Rs. 30,000).
(a) Excess debit Rs. 30,000
(b) Excess debit Rs. 60,000
(c) Excess credit Rs. 30,000
(d) No impact
Ans: (c)
Explanation:
The total from the Sales Day Book is posted to the credit of the Sales account. The Sales account will be listed in the Trial Balance. If the total transferred from the Sales Day Book is higher than it should be the Trial Balance will show an excess of credits. In this case the excess is Rs. 30,000

Q81. A purchase invoice is recorded in the Purchases Day Book as Rs. 18,500, without taking account of 10% of that amount offered as trade discount.
(a) Excess credit Rs. 1,850
(b) Excess debit Rs. 1,850
(c) Excess debit Rs. 3,700
(d) No impact
Ans: (d)
Explanation:
The amount entered in the Purchases Day Book is incorrect as trade discount is never entered in the books. However, it is the incorrect amount that will appear in both the debits in the Purchases account and the credit in the supplier's account. Although the amount is incorrect because the same amount has been entered as both a debit and a credit there will be no impact on the Trial Balance, i.e. it will continue to be in balance.

Q82. A sales invoice for Rs. 21,000 has been posted to the Customer's account as Rs. 12,000.
(a) Excess credit Rs. 12,000
(b) Excess debit Rs. 12,000
(c) Excess credit Rs. 9,000
(d) Excess debit Rs. 9,000
Ans: (c)
Explanation:
The sales invoice will have been posted to the debit of the customer's account. As the amount is Rs. 9,000 less than the amount that will appear in the Sales account credit balance, it follows that the Trial Balance will show an excess credit of Rs. 9,000 .

Q83. A Credit Note for Rs. 2,400 received from a supplier has been posted to the credit of the supplier's account.

(a) Excess credit Rs. 2,400
(b) Excess credit Rs. 4,800
(c) Excess debit Rs. 2,400
(d) Excess debit Rs. 4,800
Ans: (b)
Explanation:
Credit purchases will have been credited to the supplier's account. If the supplier sends a Credit Note indicating an amount that does not have to be paid, then there should be a debit to the supplier's account. If the debit of Rs. 1,200 had not been made then there would be an excess of credits of Rs. 1,200. Because the Rs. 1,200 was actually posted to the wrong side there is a double effect and the credits will exceed the debits by Rs. 2,400

Q84. The year-end balance in a Trade Receivable's account has been carried down as Rs. 14,800, instead of Rs. 18,400.
(a) Excess debit Rs. 3,600
(b) Excess credit Rs. 3,600
(c) Excess credit Rs. 7,200
(d) No impact
Ans: (b)
Explanation:
Trade Receivable balances are listed as debits in the Trial Balance. If figures are transposed so that Rs. 18,400 is listed as Rs. 14,800 then the debits are too low and there will be excess credits of Rs. 3,600.

Q85. The total of the Returns Outwards Day Book, amounting to Rs. 9,800, has been posted to the debit of the Purchases Returns account.
(a) Excess debit Rs. 9,800
(b) Excess debit Rs. 19,600
(c) Excess credit Rs. 19,600
(d) No impact
Ans: (b)
Explanation:
The total of Returns Outwards should be a credit with the individual debits made in the supplier's account. In this case the Rs. 9,800 returned has been entered on the wrong side, so doubling the effect of the error. This means that there will be an excess of credits of Rs. 19,600

Q86. The total sale made during the year is Rs 10 lacs, Opening stock of raw material is Rs 2 lacs, raw material purchased during the year is Rs 5 lacs and closing stock of raw material is Rs 1 lacs. If the manufacturing expenses is Rs 3 lacs the unit is in net profit of .
(a) Nil
(b) 100000
(c) 200000
(d) 300000
Ans: (b)

Directions: The debt equity ratio of X Ltd. is 0.5 : 1. Which of the following would increase/decrease or not change the debt equity ratio?

Q87. Further issue of equity shares
(a) Increase
(b) Decrease
(c) No change
(d) None of the above
Ans: (b)
Explanation:
The change in the ratio depends upon the original ratio. Let us assume that external funds are Rs. 5,00,000 and internal funds are Rs. 10,00,000.
Now we will analyze the effect of given transactions on debt equity ratio.
Assume that Rs. 1,00,000 worth of equity shares are issued.
This will increase the internal funds to Rs. 11,00,000.
The new ratio will be 0.45 : 1 (5,00,000/11,00,000).
Thus, it is clear that further issue of equity shares decreases the debt-equity ratio.

Q88. Cash received from debtors
(a) Increase
(b) Decrease
(c) No change
(d) None of the above
Ans: (c)
Explanation:
Cash received from debtors will leave the internal and external funds unchanged as this will only affect the composition of current assets.
Hence, the debt-equity ratio will remain unchanged.

Q89. Sale of goods on cash basis
(a) Increase
(b) Decrease
(c) No change
(d) None of the above
Ans: (c)
Explanation:
This will also leave the ratio unchanged as sale of goods on cash basis neither affect Debt nor equity.

Q90. Redemption of debentures
(a) Increase
(b) Decrease
(c) No change
(d) None of the above
Ans: (b)
Explanation:
Assume that Rs. 1,00,000 debentures are redeemed.
This will decrease the long-term debt to Rs. 4,00,000.
The new ratio will be 0.4 : 1 (4,00,000/10,00,000).
Redemption of debentures will decrease the debit-equity ratio.

Q91. Purchase of goods on credit

(a) Increase
(b) Decrease
(c) No change
(d) None of the above
Ans: (c)
Explanation:
This will also leave the ratio unchanged as purchase of goods on credit neither affect Debt nor equity.

Q92. ABC Company just issued a bond with a Rs. 1,000 face value and a coupon rate of 8%. If the bond has a life of 20 years, pays annual coupons, and the yield to maturity is 7.5%, what will the bond sell for?
(a) Rs. 951
(b) Rs. 975
(c) Rs. 1,020
(d) Rs. 1,051
Ans: (b)

Q93. What is the market value of a bond that will pay a total of fifty semiannual coupons of Rs. 80 each over the remainder of its life? Assume the bond has a Rs. 1,000 face value and a 12% yield to maturity.
(a) Rs. 734.86
(b) Rs. 942.26
(c) Rs. 1,135.90
(d) Rs. 1,315.24
Ans: (a)

Q94. The amount of Term Loan installment is Rs.10000/ per month, monthly average interest on TL is Rs.5000/-. If the amount of Depreciation is Rs.30,000/- p.a. and PAT is Rs.2,70,000/-. What would be the DSCR ?
(a) 1
(b) 1.5
(c) 2
(d) 2.5
Ans: (c)
Explanation:
DSCR = (PAT + Depr + Annual Intt.) / Annual Intt + Annual Installment
= (270000 + 30000 + 60000) / 60000 + 12000
= 360000 / 180000
= 2

Direction (95-97): From the following information, calculate.
Inventory in the beginning = 18,000
Inventory at the end = 22,000
Net purchases = 46,000
Wages = 14,000
Revenue from operations = 80,000
Carriage inwards = 4,000

Q95. Cost of Revenue from Operations
(a) Rs. 20,000
(b) Rs. 40,000
(c) Rs. 60,000
(d) Rs. 80,000
Ans: (c)
Explanation:
Cost of Revenue from Operations = Inventory in the beginning + Net Purchases + Wages + Carriage inwards – Inventory at the end
= Rs. 18,000 + Rs. 46,000 + Rs. 14,000 + Rs. 4,000 – Rs. 22,000
= Rs. 60,000

Q96. Average Inventory
(a) Rs. 20,000
(b) Rs. 40,000
(c) Rs. 60,000
(d) Rs. 80,000
Ans: (a)
Explanation:
Average Inventory = (Inventory in the beginning + Inventory at the end) / 2
= (Rs. 18,000 + Rs. 22,000) / 2
= Rs. 20,000

Q97. Inventory Turnover Ratio
(a) 1 Time
(b) 2 Times
(c) 3 Times
(d) 4 Times
Ans: (c)
Explanation:
Inventory Turnover Ratio = Cost of Revenue from Operations / Average Inventory
= Rs. 60,000 / Rs. 20,000
= 3 Times

Directions (98-99): X Ltd., has a current ratio of 3.5:1 and quick ratio of 2:1. If excess of current assets over quick assets represented by inventories is Rs. 24,000, calculate .

Q98. Current liabilities
(a) Rs. 16,000
(b) Rs. 36,000
(c) Rs. 56,000
(d) Rs. 76,000
Ans: (a)
Explanation:
Current Ratio = 3.5:1
Quick Ratio = 2:1
Let Current liabilities = x
Current assets = 3.5x
and Quick assets = 2x
Inventories = Current assets – Quick assets
24,000 = 3.5x – 2x
24,000 = 1.5x
x = Rs.16,000
Current Liabilities = Rs.16,000

Q99. Current assets
(a) Rs. 16,000
(b) Rs. 36,000
(c) Rs. 56,000
(d) Rs. 76,000
Ans: (c)
Explanation:
Current Assets = 3.5x = 3.5 × Rs. 16,000 = Rs. 56,000.
Verification :
Current Ratio = Current assets : Current liabilities
= Rs. 56,000 : Rs. 16,000
= 3.5 : 1
Quick Ratio = Quick assets : Current liabilities
= Rs. 32,000 : Rs. 16,000
= 2 : 1

Q100. If gross profit on sale is 20% and cost of goods sold is 2,500, What will be amount of sales?
(a) Rs.2500
(b) Rs.2750
(c) Rs.3125
(d) Rs.3500
Ans: (c)
Explanation:
Sales = Cost of goods sold x 100/80
= 2500 x 100 / 80
= 3125
Generally 20% on Sales means 25% on Costs
25% on sales means 33.33 % on Costs

Directions (101-103): Given the following information:
Total assets = Rs. 3,00,000
Non-current liabilities = Rs. 80,000
Shareholders' Funds = Rs. 2,00,000
Non-Current Assets:
Fixed assets = Rs. 1,60,000
Non-current Investments = Rs. 1,00,000

Q101. Calulate Current Assets
(a) Rs. 20,000
(b) Rs. 30,000
(c) Rs. 40,000
(d) Rs. 50,000
Ans: (c)
Explanation:
Total assets = Non-current assets + Current assets
Rs. 3,00,000 = Rs. 2,60,000 + Current assets
Current assets = Rs. 3,00,000 – Rs. 2,60,000
= Rs. 40,000

Q102. Calulate Current Liabilities
(a) Rs. 20,000
(b) Rs. 30,000
(c) Rs. 40,000
(d) Rs. 50,000
Ans: (a)
Explanation:
Total assets = Equity and Liabilities
= Shareholders' Funds + Non-current liabilities + Current liabilities
Rs. 3,00,000 = Rs. 2,00,000 + Rs. 80,000 + Current Liabilities
Current liabilities = Rs. 3,00,000 – Rs. 2,80,000
= Rs. 20,000

Q103. Calulate Current Ratio
(a) 1 : 1
(b) 1 : 2
(c) 2 : 1
(d) 2 : 1.5
Ans: (c)
Explanation:
Current Ratio = Current Assets / Current Liabilities
= Rs. 40,000 / Rs. 20,000
= 2 : 1

Directions (104-109): Balance Sheet (in lakhs) as on 31.03.2021
Assets
Current Assets
Cash - 500
Accounts Receivable - 300
Inventory - 200
Total Current Assets - 1000
Fixed Assets
Property, Plant, and Equipment - 2100
Less Accumulated Depreciation - 400
Net Fixed Assests - 1700
Total Assets - 2700
Liabilities and Owners' Equity
Current Liabilities
Accounts Payable - 400
Notes Payable - 200
Total Current Liabilities - 600
Long-Term Liabilities
Long-Term Debt - 1200
Total Long-Term Liabilities - 1200
Owners' Equity
Common Stock (1 Par) - 600
Capital Surplus - 200
Retained Earnings - 100
Total Owners' Equity - 900
Total Liab. and Owners' Equity - 2700
Profit and Loss Account (in Lakhs) for the year ended 31.03.2021
Sales - 900
Cost of Goods Sold - 600
Administrative Expenses - 300
Depreciation - 362
Earnings Before Interest and Taxes - -362
Interest Expense - 130
Taxable Income - (-)492
Taxes - (-)81
Net Income - (-)411
Dividends - 0
Addition to Retained Earnings - (-)411
Other Information
Number of Shares Outstanding (lakhs) - 600
Price per Share - 1.8
Calculate the following ratios:

Q104. Current Ratio
(a) 1 : 1
(b) 1.33 : 1
(c) 1.67 : 1
(d) 2 : 1
Ans: (c)
Explanation:
Current Ratio = Current Assets / Current Liabilities
= 1000 / 600
= 1.67 : 1

Q105. Quick Ratio
(a) 1 : 1
(b) 1.33 : 1
(c) 1.67 : 1
(d) 2 : 1
Ans: (b)
Explanation:
Quick Ratio = Quick Assets / Current Liabilities
Quick Assets = Total Current Assets - Inventory
= 1000 - 200 = 800
Quick Ratio = 800 / 600
= 1.33 : 1

Q106. Receivables Turnover
(a) 1 time
(b) 2 times
(c) 3 times
(d) 4 times
Ans: (c)
Explanation:
Receivables Turnover = Sales / Accounts Receivables
= 900 / 300
= 3 times.

Q107. Days' Receivables
(a) 91.25 Days
(b) 121.67 Days
(c) 182.5 Days
(d) 365 Days
Ans: (b)
Explanation:
Days' Receivables = 365 / Receivables Turnover
= 365 / 3
= 121.67 days

Q108. Inventory Turnover

(a) 1 time
(b) 2 times
(c) 3 times
(d) 4 times
Ans: (c)
Explanation:
The Inventory Turnover = COGS / Inventory
= 600 / 200
= 3 times.

Q109. Days' Inventory

(a) 91.25 Days
(b) 121.67 Days
(c) 182.5 Days
(d) 365 Days
Ans: (b)
Explanation:
Days' Inventory = 365 / Inventory Turnover
= 365 / 3
= 121.67 days

Directions (110-113): Given the following information, Calculate.
Revenue from Operations 3,40,000
Cost of Revenue from Operations 1,20,000
Selling expenses 80,000
Administrative Expenses 40,000

Q110. Gross Profit

(a) Rs. 2,00,000
(b) Rs. 2,20,000
(c) Rs. 2,40,000
(d) Rs. 2,60,000
Ans: (b)
Explanation:
Gross Profit = Revenue from Operations – Cost of Revenue from Operations
= Rs. 3,40,000 – Rs. 1,20,000
= Rs. 2,20,000

Q111. Operating Cost

(a) Rs. 2,00,000
(b) Rs. 2,20,000
(c) Rs. 2,40,000
(d) Rs. 2,60,000
Ans: (c)
Explanation:
Operating Cost = Cost of Revenue from Operations + Selling Expenses + Administrative Expenses
= Rs. 1,20,000 + 80,000 + 40,000
= Rs. 2,40,000

Q112. Gross profit ratio

(a) 64.71%
(b) 66.71%
(c) 68.59%
(d) 70.59%
Ans: (a)
Explanation:
Gross Profit Ratio = (Gross Profit / Revenue from operation) × 100
= (Rs. 2,20,000 / Rs. 3,40,000) x 100
= 64.71%

Q113. Operating ratio

(a) 64.71%
(b) 66.71%
(c) 68.59%
(d) 70.59%
Ans: (d)
Explanation:
Operating Ratio = (Operating Cost / Net Revenue from Operations) × 100
= (Rs. 2,40,000 / Rs. 3,40,000) x 100
= 70.59%

Directions (): From the following balance sheet of ABC Co. Ltd. as on March 31, 2018. Calculate .

I. Equity and Liabilities - 7,00,000
1. Shareholders' funds
a) Share capital 4,00,000
b) Reserves and surplus 1,00,000
2. Non-current Liabilities
Long-term borrowings 1,50,000
3. Current Liabilities 50,000
II. Assets - 7,00,000
1. Non-current Assets
a) Fixed assets 4,00,000
b) Non-current investments 1,00,000
2. Current Assets 2,00,000

Q114. Debts

(a) Rs. 1,50,000
(b) Rs. 5,00,000
(c) Rs. 5,50,000
(d) Rs. 6,50,000
Ans: (a)
Explanation:
Debt = Long-term borrowings
= Rs. 1,50,000

Q115. Equity
(a) Rs. 1,50,000
(b) Rs. 5,00,000
(c) Rs. 5,50,000
(d) Rs. 6,50,000
Ans: (b)
Explanation:
Equity = Share capital + Reserves and surplus
= Rs. 4,00,000 + Rs. 1,00,000
= Rs. 5,00,000

Q116. Capital Employed
(a) Rs. 1,50,000
(b) Rs. 5,00,000
(c) Rs. 5,50,000
(d) Rs. 6,50,000
Ans: (d)
Explanation:
Capital Employed = Shareholders' Funds + Long-term borrowings
= Rs. 5,00,000 + Rs. 1,50,000
= Rs. 6,50,000

Q117. Debt-Equity Ratio
(a) 0.23 : 1
(b) 0.3 : 1
(c) 0.71 : 1
(d) 4.67 : 1
Ans: (b)
Explanation:
Debt-Equity Ratio = Debts / Equity
= Rs. 1,50,000 / Rs. 5,00,000
= 0.3 : 1

Q118. Total Assets to Debt Ratio
(a) 0.23 : 1
(b) 0.3 : 1
(c) 0.71 : 1
(d) 4.67 : 1
Ans: (d)
Explanation:
Total Assets to Debt Ratio = Total assets / Long term debts
Total Assets = Fixed assets + Non-current investments + Current assets
= Rs. 4,00,000 + Rs. 1,00,000 + Rs. 2,00,000 = Rs. 7,00,000
Long-term Debt = Rs. 1,50,000
Total Asset to Debt Ratio = Rs. 7,00,000 / Rs. 1,50,000
= 4.67 : 1

Q119. Proprietory Ratio
(a) 0.23 : 1
(b) 0.3 : 1
(c) 0.71 : 1
(d) 4.67 : 1
Ans: (c)
Explanation:
Proprietary Ratio = Shareholders' Funds / Total Assets
= Rs. 5,00,000 / Rs. 7,00,000
= 0.71 : 1

Q120. Debt to Capital Employed Ratio
(a) 0.23 : 1
(b) 0.3 : 1
(c) 0.71 : 1
(d) 4.67 : 1
Ans: (a)
Explanation:
Debt to Capital Employed Ratio = Long - term debts / Capital Employed
Capital Employed = Shareholders' Funds + Long-term borrowings
= Rs. 5,00,000 + Rs. 1,50,000
= Rs. 6,50,000
Debt to Capital Employed Ratio= Long - term debts / Capital Employed
= Rs. 1,50,000 / Rs. 6,50,000
= 0.23 : 1

Q121. What is the amount of gross profit/loss when opening stock is Rs. 18,000, purchases Rs. 78,000, cost of good sold Rs. 1,06,000 and sales Rs. 1,49,000?
(a) Rs. 44,000 profit
(b) Rs. 42,000 profit
(c) Rs. 43,000 profit
(d) Rs. 43,000 loss
Ans: (d)

Q122. A person borrowed Rs. 10000 from the bank @ 12% p.a. for 1 year, payable on EMI basis. What is the amount of EMI?
(a) 868
(b) 888
(c) 968
(d) 986
Ans: (b)
Explanation:
P = 10000
R = 12% / 12 = 0.01% (In EMI or Equated Monthly Instalment), we need to find monthly rate, so we divide rate by 12)
T = 1 *12 = 12 (In EMI or Equated Monthly Instalment, we multiply time with 12)
The formula of EMI =

P * R * (1 + R)^T ÷ { (1 + R)^T - 1 }

So,
EMI = 10000*0.01*(1+0.01)^12 ÷ {(1+0.01)^12 – 1}
= 888 Ans

Q123. Cost of asset = 10,00,000
Estimated residual value = 10% of the cost
Estimated useful life of asset = 4 years
Find the accumulated depreciation for the 2nd year using double declining balance method.
(a) 500000
(b) 600000
(c) 700000
(d) 750000
Ans: (d)
Explanation:
Depreciation rate = (1/useful life) x 200%
= 1/4 x 200% = 20% x 2 = 50%
[Year 1]
Depreciation amount for year 1
= beginning book value x depreciation rate
= 10,00,000 x 50%
= 5,00,000
Accumulated depreciation at the end of year 1 = 5,00,000
Book value at the end of year 1
= 10,00,000 - 5,00,000
= 5,00,000
[Year 2]
Depreciation amount for year 2
= beginning book value x depreciation rate
= 5,00,000 x 50% = 2,50,000
Accumulated depreciation at the end of year 2
5,00,000 + 2,50,000 = 7,50,000